



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ February 9, 2012 _____

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the City of Leon, Iowa.

The City's receipts totaled \$5,278,238 for the year ended June 30, 2011, a 32% increase over the prior year. The receipts included \$470,755 in property and other city tax, \$1,090,411 from charges for service, \$283,209 from operating grants, contributions and restricted interest, \$924,296 from capital grants, contributions and restricted interest, \$96,429 from local option sales tax, \$2,271 from unrestricted interest on investments, \$2,399,783 from bond proceeds and \$11,084 from other general receipts.

Disbursements for the year totaled \$5,374,887, a 40% increase over the prior year, and included \$266,929 for public safety, \$261,599 for debt service and \$226,318 for public works. Also, disbursements for business type activities totaled \$4,364,292.

The increase in receipts and disbursements is primarily due to approximately \$3,324,079 of bond proceeds received and disbursed for costs associated with a wastewater treatment project.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1121-0251-B00F.pdf>.

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CITY OF LEON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2011

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City of Leon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jo Beth Smith	Mayor	Jan 2012
Pete Buckingham	Mayor Pro-tem	Jan 2012
Jacob Stone	Council Member	Jan 2012
Keith Hinds	Council Member	Jan 2014
Robert Kilgore	Council Member	Jan 2014
Larry Moffett	Council Member	Jan 2014
Angela Blades	Clerk/Treasurer	Indefinite
Pat Greenwood	Attorney	Indefinite

City of Leon



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Leon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon as of June 30, 2011, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2011 on our consideration of the City of Leon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leon's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Leon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 2.8%, or approximately \$25,000, from fiscal year 2010 to fiscal year 2011.
- Disbursements of the City's governmental activities increased 27.2%, or approximately \$215,000, from fiscal year 2010 to fiscal year 2011. Debt service disbursements increased approximately \$202,000.
- The cash basis net assets of the City's governmental activities decreased approximately \$103,000, due primarily to disbursements to retire the local option sales tax revenue bonds.
- The City's total cash basis net assets for the City's business type activities increased approximately \$7,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and refuse disposal. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for water, sewer and refuse disposal operations.

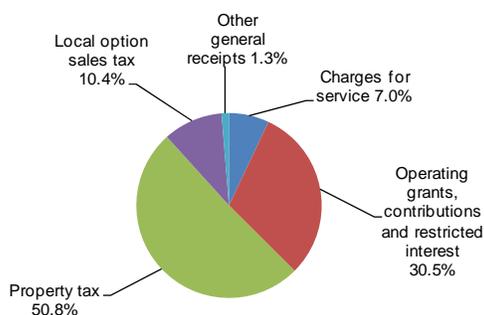
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

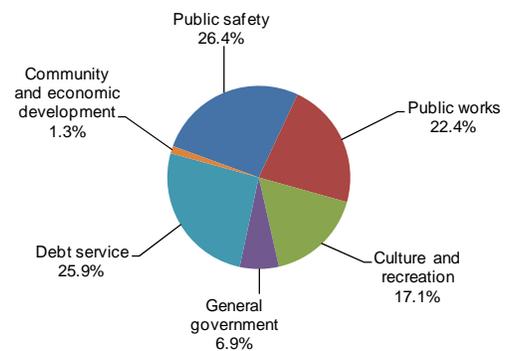
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from approximately \$879,000 to approximately \$775,000.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 65	69
Operating grants, contributions and restricted interest	283	247
General receipts:		
Property tax	471	423
Local option sales tax	96	102
Note proceeds	-	54
Other general receipts	12	7
Total receipts	<u>927</u>	<u>902</u>
Disbursements:		
Public safety	267	196
Public works	226	246
Culture and recreation	173	158
Community and economic development	13	7
General government	70	128
Debt service	262	60
Total disbursements	<u>1,011</u>	<u>795</u>
Change in cash basis net assets before transfers	(84)	107
Transfers, net	(20)	22
Change in cash basis net assets	(104)	129
Cash basis net assets beginning of year	879	750
Cash basis net assets end of year	<u>\$ 775</u>	<u>879</u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental activities decreased 12%, or approximately \$104,000, due primarily to disbursements to retire local option sales tax revenue bonds.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 564	563
Sewer	196	179
Refuse disposal	266	260
Capital grants, contributions and restricted interest	924	-
General receipts:		
Unrestricted interest on investments	1	3
Bond proceeds	2,400	2,096
Total receipts	<u>4,351</u>	<u>3,101</u>
Disbursements:		
Water	567	547
Sewer	3,557	2,252
Refuse disposal	240	240
Total disbursements	<u>4,364</u>	<u>3,039</u>
Change in cash basis net assets before transfers	(13)	62
Transfers, net	20	(22)
Change in cash basis net assets	7	40
Cash basis net assets beginning of year	686	646
Cash basis net assets end of year	<u>\$ 693</u>	<u>686</u>

The cash basis net assets of the City's business type activities increased 1%, or approximately \$7,000, over the prior year balance. Receipts and disbursements increased approximately \$1,250,000 and \$1,325,000, respectively. These increases were due to a wastewater treatment project. The project was funded through the receipt of revenue bond proceeds in fiscal year 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Leon completed the year, its governmental funds reported a combined fund balance of approximately \$775,000, a decrease of approximately \$104,000 from last year's total of approximately \$879,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased approximately \$21,000 over the prior year to approximately \$300,000. The increase is primarily due to an increase in property tax receipts.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$24,000 to approximately \$33,000. Road use tax receipts increased 3% while disbursements decreased 8%.
- The Special Revenue, Employee Benefits Fund cash balance increased approximately \$16,000 to approximately \$119,000, due in part to an increase in property and other city tax receipts of 4%.

- The Special Revenue, Local Option Sales Tax Fund cash balance decreased approximately \$161,000 to approximately \$192,000. The decrease was due to retiring the outstanding local option sales tax revenue bonds during the fiscal year.
- The Special Revenue, Economic Development Fund cash balance decreased approximately \$4,000 to a balance of approximately \$48,000. The decrease is primarily due to increased disbursements for economic development.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased approximately \$17,000, or 3.8%, to approximately \$466,000.
- The Sewer Fund cash balance decreased approximately \$37,000, or 22%, to approximately \$131,000, due primarily to disbursements for the wastewater treatment project.
- The Refuse Disposal Fund cash balance increased approximately \$26,000, or 38%, to approximately \$96,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The amendments were approved on September 9, 2010 and May 27, 2011. The amendments resulted in an increase in operating disbursements of \$290,361 and capital outlay related to a wastewater treatment project of \$4,907,296. The City had additional receipts and sufficient cash balances to absorb the additional operating costs and revenue bond proceeds to cover the wastewater treatment project costs. The City’s receipts were \$51,954, or 2%, more than the amended budgeted. Total disbursements were \$1,616,202, or 23%, less than the amended budget.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$5,231,000 of bonds, notes and other long-term debt outstanding, compared to approximately \$2,473,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation notes	\$ -	54
Local option sales tax revenue bonds	-	185
Water revenue bond	678	717
Sewer revenue bonds	2,186	411
Purchase agreements	20	16
Total	\$ 2,884	1,383

Debt increased as a result of the City drawing additional proceeds on the sewer revenue bonds originally issued during fiscal year 2010.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City has \$20,167 of outstanding general obligation debt and its constitutional debt limit is approximately \$2,944,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Leon's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

The fiscal year 2012 budget contains total receipts of approximately \$2,089,000 and disbursements of approximately \$2,003,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Angela Blades, City Clerk/Treasurer, P.O. Box 210, Leon, Iowa 50144.

Basic Financial Statements

City of Leon

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 266,929	5,268	62,845	-
Public works	226,318	3,245	190,845	-
Culture and recreation	172,680	29,151	27,893	-
Community and economic development	13,048	-	125	-
General government	70,021	27,199	1,077	-
Debt service	261,599	-	424	-
Total governmental activities	1,010,595	64,863	283,209	-
Business type activities:				
Water	567,352	563,430	-	-
Sewer	3,556,984	195,986	-	924,296
Refuse disposal	239,956	266,132	-	-
Total business type activities	4,364,292	1,025,548	-	924,296
Total	\$ 5,374,887	1,090,411	283,209	924,296
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Tort liability				
Public streets				
Employee benefits				
Swimming pool				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(198,816)	-	(198,816)
(32,228)	-	(32,228)
(115,636)	-	(115,636)
(12,923)	-	(12,923)
(41,745)	-	(41,745)
(261,175)	-	(261,175)
(662,523)	-	(662,523)
-	(3,922)	(3,922)
-	(2,436,702)	(2,436,702)
-	26,176	26,176
-	(2,414,448)	(2,414,448)
(662,523)	(2,414,448)	(3,076,971)
414,729	-	414,729
56,026	-	56,026
96,429	-	96,429
882	1,389	2,271
-	2,399,783	2,399,783
11,084	-	11,084
(20,000)	20,000	-
559,150	2,421,172	2,980,322
(103,373)	6,724	(96,649)
878,552	686,457	1,565,009
\$ 775,179	693,181	1,468,360
\$ 61,197	-	61,197
61,312	-	61,312
33,131	-	33,131
118,626	-	118,626
192,418	-	192,418
14,779	14,337	29,116
55,296	-	55,296
238,420	678,844	917,264
\$ 775,179	693,181	1,468,360

City of Leon

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 288,908	-	106,995
Other city tax	13,723	-	5,103
Licenses and permits	21,774	-	-
Use of money and property	5,607	-	327
Intergovernmental	93,016	180,307	-
Charges for service	25,728	-	-
Miscellaneous	22,024	-	-
Total receipts	<u>470,780</u>	<u>180,307</u>	<u>112,425</u>
Disbursements:			
Operating:			
Public safety	218,338	-	48,591
Public works	15,044	156,465	37,328
Culture and recreation	163,628	-	7,899
Community and economic development	-	-	-
General government	67,765	-	2,256
Debt service	-	-	-
Total disbursements	<u>464,775</u>	<u>156,465</u>	<u>96,074</u>
Excess (deficiency) of receipts over (under) disbursements	<u>6,005</u>	<u>23,842</u>	<u>16,351</u>
Other financing sources (uses):			
Operating transfers in	14,725	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>14,725</u>	<u>-</u>	<u>-</u>
Net change in cash balances	20,730	23,842	16,351
Cash balances beginning of year	279,002	9,289	102,275
Cash balances end of year	<u>\$ 299,732</u>	<u>33,131</u>	<u>118,626</u>
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Library trust	-	-	-
Restricted for:			
Tort liability	61,312	-	-
Public streets	-	33,131	-
Employee benefits	-	-	118,626
Swimming pool	-	-	-
Debt service	-	-	-
Other purposes	-	-	-
Unassigned	238,420	-	-
Total cash basis fund balances	<u>\$ 299,732</u>	<u>33,131</u>	<u>118,626</u>

See notes to financial statements.

Revenue				
Local	Economic			
Option	Development	Nonmajor		Total
Sales Tax				
-	-	53,431		449,334
96,429	-	2,595		117,850
-	-	-		21,774
377	125	1,977		8,413
-	-	-		273,323
-	-	-		25,728
-	8,676	100		30,800
96,806	8,801	58,103		927,222
-	-	-		266,929
17,481	-	-		226,318
-	-	1,153		172,680
-	13,048	-		13,048
-	-	-		70,021
205,110	-	56,489		261,599
222,591	13,048	57,642		1,010,595
(125,785)	(4,247)	461		(83,373)
-	-	-		14,725
(34,725)	-	-		(34,725)
(34,725)	-	-		(20,000)
(160,510)	(4,247)	461		(103,373)
352,928	52,646	82,412		878,552
192,418	48,399	82,873		775,179
-	-	46,197		46,197
-	-	15,000		15,000
-	-	-		61,312
-	-	-		33,131
-	-	-		118,626
192,418	-	-		192,418
-	-	14,779		14,779
-	48,399	6,897		55,296
-	-	-		238,420
192,418	48,399	82,873		775,179

City of Leon

City of Leon

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise			Total
	Water	Sewer	Refuse Disposal	
Operating receipts:				
Charges for service	\$ 561,504	195,986	266,132	1,023,622
Miscellaneous	1,926	-	-	1,926
Total operating receipts	563,430	195,986	266,132	1,025,548
Operating disbursements:				
Business type activities	505,049	167,889	239,956	912,894
Excess of operating receipts over operating disbursements	58,381	28,097	26,176	112,654
Non-operating receipts (disbursements):				
Interest on investments	1,038	220	131	1,389
State grant	-	924,296	-	924,296
Bond proceeds	-	2,399,783	-	2,399,783
Debt service	(62,303)	(51,873)	-	(114,176)
Capital projects	-	(3,337,222)	-	(3,337,222)
Net non-operating receipts (disbursements)	(61,265)	(64,796)	131	(125,930)
Excess (deficiency) of receipts over (under) disbursements	(2,884)	(36,699)	26,307	(13,276)
Transfers in	20,000	-	-	20,000
Net change in cash balances	17,116	(36,699)	26,307	6,724
Cash balances beginning of year	449,094	168,038	69,325	686,457
Cash balances end of year	\$ 466,210	131,339	95,632	693,181
Cash Basis Fund Balances				
Restricted for debt service	\$ 5,029	9,308	-	14,337
Unrestricted	461,181	122,031	95,632	678,844
Total cash basis fund balances	\$ 466,210	131,339	95,632	693,181

See notes to financial statements.

City of Leon

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Leon is a political subdivision of the State of Iowa located in Decatur County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and refuse disposal utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Leon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Decatur County Assessor's Conference Board, Decatur County Emergency Management Commission, Wayne, Ringgold and Decatur County Solid Waste Management Commission and Decatur County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Funds.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property and other City tax levied to pay payroll taxes and employee benefits of the City that are not paid through an Enterprise Fund.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts needed to repay the City's swimming pool debt, pool maintenance and street repairs.

The Economic Development Fund is used to account for grant and other receipts used for economic development activities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Refuse Disposal Fund accounts for the City's refuse disposal operations.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

Water Revenue Bonds

Annual debt service requirements to maturity for the water revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 40,000	20,340	60,340
2013	41,000	19,140	60,140
2014	42,000	17,910	59,910
2015	43,000	16,650	59,650
2016	45,000	15,360	60,360
2017 - 2021	244,000	55,860	299,860
2022 - 2025	223,000	16,980	239,980
Total	\$ 678,000	162,240	840,240

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$896,000 of water revenue bonds issued April 22, 2005. Proceeds from the bonds provided financing for water treatment plant improvements. The bonds are payable solely from water customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$840,240. For the year ended June 30, 2011, principal and interest paid and total customer net receipts were \$60,510 and \$58,381, respectively. During the current year, annual principal and interest payments on the bonds required 104% of net receipts.

The resolution providing for the issuance of the water revenue bonds issued under a loan agreement between the City, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

- (c) The City will establish rates sufficient to meet the operation and maintenance expenses of the water system and to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bonds falling due in the same year.

The City's net revenues for the year ended June 30, 2011 were less than the required 110% of the bond principal and interest falling due during the year.

Local Option Sales Tax Revenue Bonds

On August 19, 2010, the City defeased the local option sales tax revenue bonds issued May 1, 2002 by entering into an escrow agreement with Bankers Trust Company and depositing \$205,110 in an irrevocable escrow account. The funds are to be held and used to pay the principal and interest due on the local option sales tax revenue bonds through June 1, 2012, at which time the bonds are subject to early redemption and will be called and retired. Since the bonds are defeased, the balances in the escrow account and the outstanding balance of the defeased bonds are not included in the City's financial statements. As of June 30, 2011, the outstanding balance of the defeased bonds is \$150,000.

Sewer Revenue Bond, Series 2010A

On February 16, 2010, the City entered into a loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a sewer revenue bond of up to \$3,723,000 with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. The City will draw down funds from the DNR upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn down \$2,186,018 of the authorized amount. An initiation fee of \$37,230 (1% of the authorized borrowing for the sewer revenue bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the sewer revenue bond drawn by the City during the year ended June 30, 2010. A final repayment schedule has not yet been adopted. During the year ended June 30, 2011, the City paid interest of \$42,565 on the bond under a preliminary repayment schedule.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay the sewer revenue bond. The bond is payable solely from sewer customer net receipts. Annual interest payments on the bond required 151% of net receipts. The total amount of principal and interest remaining to be paid on the bond at June 30, 2011 is not available since a final repayment schedule has not been adopted. For the current year, interest paid and total customer net receipts were \$42,565 and \$28,097, respectively.

The resolution providing for the issuance of the sewer revenue bond issued under the loan agreement includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

The City's net revenues for the year ended June 30, 2011 were less than the required 110% of the bond principal and interest falling due during the year.

Forgivable Loan

On February 16, 2010, the City entered into a forgivable loan agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources (DNR) for the issuance of a \$2,000,000 forgivable sewer revenue bond. The bond was issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal wastewater treatment system of the City. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the City will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The City received funds from the DNR upon request to reimburse the City for costs as incurred. During the year ended June 30, 2011, the City drew down \$625,058 of the forgivable loan, bringing the total drawdowns to the authorized amount of \$2,000,000. At June 30, 2011, the City had not yet met the requirements for the loan to be forgiven.

Purchase agreement

On March 28, 2011, the City entered into a purchase agreement for computer software for \$30,250. The agreement requires 3 equal payments of \$10,083 in March 2011, upon entering into the agreement, and in July 2011 and 2012. During the year ended June 30, 2011, the City paid \$10,083 under the agreement, with a balance of \$20,167 remaining.

(4) Operating Lease Agreement

The City entered into a lease during the year ended June 30, 2010. The City is leasing a copier, printer and fax machine. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires March 5, 2014.

The following is a schedule of future minimum rental payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2011:

Year Ending June 30,	Amount
2012	\$ 1,157
2013	1,157
2014	772
Total	<u>\$ 3,086</u>

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$38,150, \$35,203 and \$34,358, respectively, equal to the required contribution for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory and sick leave hours payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 27,900
Compensatory	20,800
Sick leave	12,600
Total	<u>\$ 61,300</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 16 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members range from \$385 to \$485 for single coverage and \$681 to \$1,141 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed \$159,089 and plan members eligible for benefits contributed \$11,891 to the plan.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 14,725
Enterprise:	Special Revenue:	
Water	Local Option Sales Tax	20,000
Total		<u>\$ 34,725</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Contract with Southern Iowa Rural Water Association (SIRWA)

The City has entered into an agreement with Southern Iowa Rural Water Association (SIRWA) to sell up to 250,000 gallons of water per day to SIRWA. The rate effective at June 30, 2011 is \$2.15/1,000 gallons, with the provision the rate per 1,000 gallons is subject to annual review based on changes in production costs. The agreement covers a 40 year period ending August 31, 2046.

(11) Related Organization

The Low Rent Housing Agency of Leon, Iowa is a related organization of the City. The Agency was created by resolution of the City Council as a public body corporate and politic as provided in Section 403A.5 of the Code of Iowa. The City appoints all of the Low Rent Housing Agency's governing board, but the City is not financially accountable for the Agency.

(12) Construction Commitment

At June 30, 2011, the City had entered into a construction contract for \$4,878,700 for construction of a wastewater treatment facility. Change orders have reduced the construction contract to \$4,717,419. As of June 30, 2011, costs of \$4,382,110 had been paid on the contract. The remaining \$335,309 will be paid as work on the project progresses.

City of Leon

Required Supplementary Information

City of Leon
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 449,334	-	449,334
Other city tax	117,850	-	117,850
Licenses and permits	21,774	-	21,774
Use of money and property	8,413	1,389	9,802
Intergovernmental	273,323	924,296	1,197,619
Charges for service	28,127	1,023,622	1,051,749
Miscellaneous	28,401	1,926	30,327
Total receipts	<u>927,222</u>	<u>1,951,233</u>	<u>2,878,455</u>
Disbursements:			
Public safety	266,929	-	266,929
Public works	226,318	-	226,318
Culture and recreation	172,680	-	172,680
Community and economic development	13,048	-	13,048
General government	70,021	-	70,021
Debt service	261,599	-	261,599
Business type activities	-	4,364,292	4,364,292
Total disbursements	<u>1,010,595</u>	<u>4,364,292</u>	<u>5,374,887</u>
Excess (deficiency) of receipts over (under) disbursements	(83,373)	(2,413,059)	(2,496,432)
Other financing sources, net	<u>(20,000)</u>	<u>2,419,783</u>	<u>2,399,783</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(103,373)	6,724	(96,649)
Balances beginning of year	<u>878,552</u>	<u>686,457</u>	<u>1,565,009</u>
Balances end of year	<u>\$ 775,179</u>	<u>693,181</u>	<u>1,468,360</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
448,876	448,876	458
113,580	113,580	4,270
14,635	14,635	7,139
7,850	7,850	1,952
190,964	1,181,479	16,140
1,026,702	1,026,702	25,047
11,250	33,379	(3,052)
<u>1,813,857</u>	<u>2,826,501</u>	<u>51,954</u>
232,732	285,871	18,942
209,145	252,394	26,076
165,160	185,987	13,307
3,500	13,048	-
73,392	77,655	7,634
102,625	261,960	361
<u>1,006,878</u>	<u>5,914,174</u>	<u>1,549,882</u>
<u>1,793,432</u>	<u>6,991,089</u>	<u>1,616,202</u>
20,425	(4,164,588)	1,668,156
-	3,925,291	(1,525,508)
20,425	(239,297)	142,648
<u>1,463,342</u>	<u>1,463,342</u>	<u>101,667</u>
<u>1,483,767</u>	<u>1,224,045</u>	<u>244,315</u>

City of Leon

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$5,197,657. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Leon

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	Cemetery Trust	Library Trust	Debt Service
Receipts:			
Property tax	\$ -	-	53,431
Other city tax	-	-	2,595
Use of money and property	923	1,008	46
Miscellaneous	-	-	-
Total receipts	923	1,008	56,072
Disbursements:			
Operating:			
Culture and recreation	-	1,153	-
Debt service	-	-	56,489
Total disbursements	-	1,153	56,489
Net change in cash balances	923	(145)	(417)
Cash balances beginning of year	2,092	1,320	15,196
Cash balances end of year	\$ 3,015	1,175	14,779
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	-	-
Library Trust	-	-	-
Restricted for:			
Debt service	-	-	14,779
Other purposes	3,015	1,175	-
Total cash basis fund balances	\$ 3,015	1,175	14,779

See accompanying independent auditor's report.

Permanent		
Cemetery		
Perpetual		
Care	Library	Total
-	-	53,431
-	-	2,595
-	-	1,977
100	-	100
100	-	58,103
-	-	1,153
-	-	56,489
-	-	57,642
100	-	461
46,097	17,707	82,412
46,197	17,707	82,873
46,197	-	46,197
-	15,000	15,000
-	-	14,779
-	2,707	6,897
46,197	2,707	82,873

City of Leon
Schedule of Indebtedness
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Property restoration	Feb 3, 2010	3.95%	\$ 54,000
Revenue bonds:			
Local option sales tax	May 1, 2002	3.50 - 5.80%	\$ 400,000
Water	Apr 22, 2005	3.00	896,000
Sewer, Series 2010A	Feb 16, 2010	* 3.00	3,723,000
Total			
Purchase agreements:			
Mowers	Mar 9, 2010	1.90%	\$ 16,611
Computer software	Mar 28, 2011	0.00	30,250
Total			

* The City is required to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
54,000	-	54,000	-	2,489
185,000	-	185,000	-	19,910
717,000	-	39,000	678,000	21,510
411,293	1,774,725	-	2,186,018	42,565
\$ 1,313,293	1,774,725	224,000	2,864,018	83,985
15,505	-	15,505	-	565
-	30,250	10,083	20,167	-
\$ 15,505	30,250	25,588	20,167	565

Schedule 3

City of Leon
Bond Maturities
June 30, 2011

Year Ending June 30,	Water Revenue Bonds Issued April 22, 2005	
	Interest Rates	Amount
2012	3.00%	\$ 40,000
2013	3.00	41,000
2014	3.00	42,000
2015	3.00	43,000
2016	3.00	45,000
2017	3.00	46,000
2018	3.00	47,000
2019	3.00	49,000
2020	3.00	50,000
2021	3.00	52,000
2022	3.00	53,000
2023	3.00	55,000
2024	3.00	57,000
2025	3.00	58,000
Total		<u>\$ 678,000</u>

See accompanying independent auditor's report.

City of Leon
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Direct:			
U.S. Department of Homeland Security: Assistance to Firefighters Grant	97.044	EMW-2009-F0-08671	\$ 33,002
Indirect:			
U.S. Department of Transportation: Iowa Department of Public Safety: Occupant Protection Incentive Grants	20.602	PAP 11-03, Task 0504	4,325
Environmental Protection Agency: Iowa Department of Natural Resources: Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-192419-01	2,399,783
U.S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DR-IA	15,931
Total indirect			2,420,039
Total			\$ 2,453,041

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Leon and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Leon



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Leon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 30, 2011. Our report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Leon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Leon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Leon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Leon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-11 through II-F-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Leon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Leon's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Leon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Leon and other parties to whom the City of Leon may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Leon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 30, 2011

City of Leon

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the City of Leon, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Leon's major federal program for the year ended June 30, 2011. The City of Leon's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Leon's management. Our responsibility is to express an opinion on the City of Leon's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Leon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Leon's compliance with those requirements.

In our opinion, the City of Leon complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the City of Leon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Leon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Leon's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Leon and other parties to whom the City of Leon may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 30, 2011

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 - Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Leon did not qualify as a low-risk auditee.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One employee has control over each of the following areas:

- (1) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (2) Disbursements – check writing, recording disbursements and bank reconciling.
- (3) Utilities – billing, collecting, posting and recording accounts receivable.
- (4) Payroll – recording leave, preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – We have developed a system where the Deputy Clerk opens and sorts the mail and the Utility Clerk enters the payments and delivers the mail to the proper departments. In the event that someone or more than one person is gone within the office, the person(s) sorting and entering may change.

As for the disbursements, the Utility Clerk identifies the vendor on each claim, the Clerk codes the claims and the Deputy Clerk enters the claims. The Mayor and City Clerk then sign the checks once done. In the event the Mayor or City Clerk, one or both, are absent to sign checks, the Mayor Pro-tem and/or Deputy Clerk are authorized to sign. The disbursements are then reviewed by the Council once per month.

The utility billing is billed by the Deputy Clerk and sorted by both the Utility Clerk and Deputy Clerk. The collecting is done by all within the office throughout each day.

The payroll is received and entered by the Deputy Clerk and timesheets are reviewed by the Mayor and signed by both the Mayor and City Clerk. We are going to work on processes where the timesheets and accrued leave times are more extensively reviewed quarterly by the Mayor and City Clerk.

Conclusion – Response accepted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

- II-B-11 Utility Billing Reconciliation – Utility billings, collections and delinquencies were not reconciled monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies monthly. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – The City of Leon is working on program conversions with Data Technologies and once the conversions are complete we should be able to provide the reports and information being requested to have record of on a monthly basis.

Conclusion – Response accepted.

- II-C-11 Initial Listing – A listing of cash and checks received in the mail was not prepared.

Recommendation – A listing of all cash and receipts received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

Response – We are not sure if this listing should include cash and checks received in the drop box. We are also not sure what benefit this would have other than duplication of work. We can work on implementing a routine of at least twice per month where the Deputy Clerk enters in payments received through the drop box and the mail into a spreadsheet. The Deputy Clerk could then turn it over to the Utility Clerk for entering. The City Clerk could then review the spreadsheet and the cash receipting report to ensure that the two coincide.

Conclusion – Response acknowledged. Controls over collections would be enhanced if the process identified in the first paragraph of the response to item II-A-11 above included the Deputy Clerk (mail opener) periodically preparing a list of several, not necessarily all, of the cash and checks received in the mail and the drop box and later compared that list to the receipts record.

- II-D-11 Information Systems – The City does not have a written disaster recovery plan for its computer system or written policies for the use of software.

Recommendation – The City should develop a written disaster recovery plan and software policy.

Response – The City currently utilizes the disaster recovery plan used by the County Emergency Management Department. However, the City is in the middle of developing a more City oriented disaster recovery plan which is intended to be implemented by July 1, 2012. One of the steps we are taking is to utilize the offsite back-up through Data Technologies. That way, in the event a disaster destroys City Hall and the bank where our back-up drives are stored, we will have information available to utilize for operations.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

The Clerk is currently working with the City's IT company to get a software policy implemented. A password policy has been established and was approved at the January 13, 2012 regular council meeting.

Conclusion – Response accepted.

- II-E-11 Chart of Accounts and Annual Financial Report - The City has not fully implemented the Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee on September 25, 2002. As a result, certain receipts and disbursements were not properly reported in the Annual Financial Report. These were classified and resolved for audit purposes.

Recommendation – To provide better information and control, the City should follow the Uniform Chart of Accounts for Iowa City Governments.

Response – The City Council has approved to purchase and implement new software through Data Technologies. At the time of the conversion to this new software, the Uniform Chart of Accounts for Iowa City Governments will be implemented and used from that point forward.

Conclusion – Response accepted.

- II-F-11 Journal Entries – Evidence did not exist documenting all non-routine journal entries were approved by an independent official.

Recommendation – The City should develop policies for processing and approving all journal entries. Approval by an independent person should be evidenced.

Response – The Clerk currently reviews the entries when balancing her financial reports to the software financial reports. From this point forward, the City Clerk and the Mayor will initial all journal entry reports.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- IV-B-11 Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted, except a resolution naming an official depository could not be located.

Recommendation – A depository resolution including all depositories used by the City should be adopted by the City Council in accordance with Chapter 12C.2 of the Code of Iowa.

Response – The City will adopt a depository resolution.

Conclusion – Response accepted.

- IV-H-11 Revenue Bonds – The City’s water and sewer revenue bond resolutions require the City to establish, impose, adjust and provide for the collection of rates to be charged to utility customers that produce net operating receipts equal to at least 110% of the principal and interest coming due in each fiscal year. The City’s fiscal year 2011 net water receipts of \$58,381 were less than 110% of the \$60,510 of water revenue bond principal and interest due during fiscal year 2011. Additionally, the fiscal year 2011 net sewer operating revenues of \$28,097 were less than 110% of the \$42,565 of sewer revenue bond principal and interest due during fiscal year 2011.

Recommendation – The City should review its rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments due in the fiscal year.

City of Leon

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – The City had reviewed the amount of funds being transferred to each of the reserve accounts which is set aside to cover the expenses of water and sewer loan payments. At that time, more was being transferred than what was necessary to cover the water costs and not enough was being transferred to cover the sewer loan cost. Therefore, the City made adjustments to both in order to make available the amount necessary in each reserve fund within the year to cover the costs needed. However, there must have been a misunderstanding with the 110% above the difference of the revenues minus the expenses. The issue will be discussed and reviewed at budget time for fiscal year 2013 and we will also review the remainder of fiscal year 2012 at that time in order to make the necessary adjustments to meet those requirements.

Conclusion – Response accepted.

IV-I-11 Annual Financial Report – The City did not publish the annual report for the fiscal year ended June 30, 2011 by December 1 as required by Chapter 384.22 of the Code of Iowa. In addition, the report contained material errors in the ending balances and certain receipt and disbursement line items.

Recommendation – The City should publish the annual report as required by Chapter 384.22 of the Code of Iowa. The City should amend the annual financial report to correctly report receipts, disbursements and balances.

Response – The City has gone through software program conversions from Tyler Technologies to Data Technologies. This conversion has been long going with additional items to be addressed. The hope was to utilize the information under the Data Technologies since it follows the Uniform Chart of Accounts for Iowa City Governments. However, there are still items which need to be addressed and included which did not coincide or transfer correctly from the Tyler Software. We are working to address these issues so they are true and correct. The City is willing to review the annual report and make any necessary changes in order to alleviate any future reporting issues when filing the 2012 AFR.

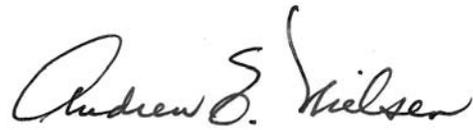
Conclusion – Response accepted.

City of Leon

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Karen J. Kibbe, Senior Auditor
Nicole L. Wilson, Assistant Auditor
Ryan A. Yeager, CPA, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State